Financial Ombudsman Service

complaint

Ms R says Provident Personal Credit Limited (trading as Satsuma) irresponsibly lent to her.

background

This complaint is about 14 instalment loans Satsuma provided to Ms R between March 2016 and June 2019. Ms R borrowed amounts ranging between £100 and £750 to be repaid in weekly or monthly instalments over periods between three and twelve months. There was a significant break in the lending after loan one. Her loans sometimes overlapped so that there was more than one repayment due each month. From what I can see, amounts are still outstanding for loans 13 and 14.

Our adjudicator upheld Ms R's complaint in part and thought the loans from loan five onwards shouldn't have been given. Satsuma disagreed and the complaint was passed to me for a final decision.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Satsuma needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Ms R could repay the loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Satsuma should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that Satsuma was required to establish whether Ms R could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Ms R's complaint.

Satsuma asked Ms R for information about her income and expenditure and it carried out credit checks. Ms R said she earned £1,400 for loan one and then about £900 a month for the rest of her loans. she said her monthly outgoings were about £400 to £550. I can't see that Satsuma's credit checks found anything untoward that should have prompted further checks.

For loans one to four, given the loan amounts, what was apparent about Ms R's circumstances at the time and her history with Satsuma, I don't think it would've been proportionate to ask her for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Ms R provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Ms R was saying. From the information Ms R provided, the loans looked affordable. So I can't say that Satsuma was wrong to provide loans one to four.

I've looked at the overall pattern of Satsuma's lending history with Ms R, with a view to seeing if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Ms R's case, I think that this point was reached by loan five. I say this because the pattern of lending showed that Ms R had become persistently reliant on short-term loans:

- Loan five was Ms R's fifth loan in seven months and the amounts she borrowed had stayed about the same.

- From loan five onwards Ms R was provided with a new loan within weeks of settling a previous one. So Satsuma ought to have realised it was more likely than not Ms R was having to borrow further to cover the hole repaying her previous loan was leaving in her finances and that Ms R's indebtedness was increasing unsustainably.

- Ms R wasn't making any real inroads to the amount she owed Satsuma. Loan 14 was taken out three and a half years after loan two, the start of her chain of borrowing. And it was for a larger amount. Ms R had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Ms R lost out because Satsuma continued to provide borrowing from loan five onwards because:

- these loans had the effect of unfairly prolonging Ms R's indebtedness by allowing her to take expensive credit intended for short-term use over an extended period of time.

- the sheer number of loans and deferrals was likely to have had negative implications on Ms R's ability to access mainstream credit and so kept her in the market for these high-cost loans.

So I'm upholding the complaint about loans 5 to 14 and I think Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Ms R paid on loans 5 to 14 and waive any still outstanding; this refund should be offset against the balance of capital Ms R still owes and the remainder paid to her; or, if a balance remains outstanding, an affordable repayment plan should be set up to clear the balance.

- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;

- the number of loans taken from loan 5 onwards means any information recorded about them is adverse. So all entries about loans 5 to 14 should be removed from Ms R's credit file.

† HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Ms R a certificate showing how much tax it's taken off if she asks for one.

my final decision

For the reasons given above, my final decision is that I partially uphold Ms R's complaint. I require Provident Personal Credit Limited (trading as Satsuma) to pay Ms R compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 19 December 2019.

Phillip Berechree
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